R (131)

Supplemental Q's and A's for Secretary's Use with Transition Teams

Iraq-Iran Conflict

Q. Who is winning the war?

A. While Iraq has been able to realize its original territorial objectives, it has failed in its efforts to bring about the removal of the Khomeini regime. The war appears to have won Khomeini increased domestic political support and has undermined the position of potential opposition groups, particularly those who have received support from Iraq. Iraq apparently believes that it has taken enough territory to eventually force the Iranians to the bargaining table. Neither side has yet been severely hampered by shortages of military spare parts or expendables. The Iranians have received some supplies, principally from North Korea, Syria and Libya. Iraq has also received limited supplies from Eastern and Western European countries. Jordan has been Iraq's most outspoken supporter in the war. Jordan has not provided Iraq with military supplies although Jordan's port of Aqaba has become a key entrepot for commercial goods destined for Iraq.

Q. What is the war's likely effect on the world oil market?

A There is a serious risk of a net oil supply shortfall of 1-2 million barrels daily (MMBD) through the first half of 1981. (This figure takes into account the loss of 3.8 MMBD of exports

DEPARTMENT OF STATE/ACDA
REVIEWED BY [signature] DATE 6/7/83
RDS☐or XDS☐EXT. DATE _____
TS AUTH. _____ REASON(S) _____
ENDORSE EXISTING MARKINGS ☐
DECLASSIFIED☐ RELEASABLE☒
RELEASE DENIED☐
PA or FOI EXEMPTIONS _____

UNCLASSIFIED

from Iran and Iraq, decreasing demand in most Western countries and increased production by some producers, mainly Saudi Arabia). The main danger is that the long-term shortfall will lead to market panic, as happened in 1978-79, sharply driving up prices. Such developments would be a blow to the major developed economies, and would do severe damage to the economies of LDC's.

Q. What is the current state of our relations with Iraq?

A. We have made clear in the past three years our interest in establishing normal diplomatic relations with Iraq, which were severed by Iraq in 1967. We currently have an Interests Section in Baghdad headed by a senior diplomat. Although Iraq has left open the possibility of normal diplomatic relations with the U.S., it has not so far indicated an interest in doing so. Iraq has cited U.S. policy toward the Arab-Israeli dispute and the Palestinians as the primary obstacle to resumption of normal ties. Iraq has indicated it will reconsider its position once the new Administration's policies towards the Middle East are clarified. The recent indication by Baghdad of new interest in a political dialogue with the U.S. may indicate that the Iraqis are already reassessing their position. In the commercial sphere relations have progressed substantially, although we face some problems in maintaining the momentum of the last few years. The Administration deferred a decision

UNCLASSIFIED

DECLASSIFIED

on applications for the sale of civil aircraft to Iraq in August because Congress opposed the sale, based on Iraq's record of repeatedly supporting acts of international terrorism. Congress has also been disturbed with an earlier decision to grant licenses for the export of eight engines for frigates which Italy is building for Iraq. The shipment of the remaining engines was deferred by the manufacturer at the request of the Department following the outbreak of the Iraq-Iran conflict. On the other hand, we have clear indication that the Iraqis are not ruling out a significant role for U.S. firms in what will be a major post-war reconstruction effort.

DECLASSIFIED